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THE UNITED STATES BANKRUPTCY COURT

FOR THE DISTRICT OF ARIZONA

In Re: BCE WEST, L.P., *et al.*, Debtors EID # 38-3196719	In Proceedings Under Chapter 11 Case Nos. B 98-12547-ECF-CGC through 98-12570-ECF-CGC (Jointly Administered) **REPLY OF G.E. CAPITAL TO OBJECTION OF OFFICIAL COMMITTEE OF UNSECURED CREDITORS TO DEBTORS' MOTION FOR APPROVAL OF FIFTH AMENDMENT TO DEBTOR IN POSSESSION CREDIT AGREEMENT**

GENERAL ELECTRIC CAPITAL CORPORATION ("GE Capital"), as Administrative Agent for the DIP and on its own behalf, submits the following Response to the Objection of Official Committee of Unsecured Creditors to Debtors' Motion For Approval Of Fifth Amendment To Debtor In Possession Credit Agreement filed herein.

In its Objection, the Committee asserts that, although the DIP Lenders are agreeing to continue to fund the Debtors' liquidity needs long after their obligation to do so has ended, the Committee does not believe it is appropriate for those Lenders to obtain a release from the Debtors in conjunction with their agreement to continue funding. The Committee is effectively asking the DIP Lenders to continue to fund while the specter of a possible lawsuit looms over them. This is an entirely unreasonable request, and must be denied.

1. The $70 Million DIP Credit Facility ("DIP Facility") that was provided to the Debtors at the commencement of these cases on October 5, 1998 was approved by this Court pursuant to its Interim Order entered on October 5, 1998 and its Final Order entered on October 29, 1998. Based on the Debtors' projections as of the commencement of these cases, which projections included, among other things, the payment of monthly adequate protection payments to the 1995 and 1996 Lenders in the amount of approximately $1.38 million and $460,000, respectively, per month, the DIP Facility provided sufficient liquidity to the Debtors for the period through early 2000.

2. As of early 1999, the Debtors were failing to meet their original projections, and would have defaulted on the DIP Facility's financial covenants but for the DIP Lenders' agreement to amend those financial covenants as provided in Amendment No. 1 to the DIP Credit Agreement that was entered into, and approved by the Bankruptcy Court, on February 24, 1999. In connection with that amendment, the 1996 Lenders and the 1995 Lenders each agreed to defer the adequate protection payments that were otherwise payable to them (and that, pursuant to the Debtors' original projections, were projected to be paid), and the DIP Lenders established an Availability Reserve which would automatically increase each month, for a four month period, in

an amount equal to the adequate protection payment that, but for such deferral, would have been payable to the 1996 Lenders.

3. Pursuant to a series of four subsequent amendments to the DIP Credit Agreement, the most recent of which, Amendment No. 5, is the one that is currently at issue,[1] the DIP Lenders have agreed, in each case based on the then current "treasury model" of the Debtors, to reduce the Availability Reserve to provide the Debtors with the liquidity needed during the relevant amendment period.

4. In addition, although the financial covenants were reset in connection with Amendment No. 1 to the DIP Credit Agreement, by mid-1999 the Debtors were out of compliance with the new financial covenants. However, pursuant to Amendment Nos. 3-5 to the DIP Credit Agreement, the DIP Lenders have been agreeing to forbear with respect to the defaults arising from the Debtors' failure to satisfy such covenants.

5. As demonstrated above, the DIP Lenders have continued to fund the Debtors notwithstanding the Debtors' failure to meet their original projections from October, 1998 or their amended projections from February, 1999, and notwithstanding the corresponding defaults arising from breaches of the financial covenants (which defaults would have terminated the DIP Lenders' funding obligations absent the waivers and amendments granted by the DIP Lenders). In addition, the DIP Lenders have, pursuant to Amendment No. 5, effectively provided for $5MM of additional availability to address the Debtors' expressed need for additional liquidity through the rest of the year. Thus, the DIP Lenders have supported and, pursuant to Amendment No. 5, are continuing to support, the Debtors and their continued operations.

[1] Each of the amendments included the release language that is being objected to by the Committee in the instant objection. This is the first time that any party has objected to the release.

6. Although the Committee objects to the release provisions of Amendment No. 5 and wants them stricken, it does not address the issue of what happens if its request is granted and, as a result, the DIP Lenders decide to cease funding the Debtors. The Committee certainly has not proposed to provide funding to the Debtors, nor has it identified any alternative source for such funding.

The Committee wants its cake and wants to eat it too. While enjoying the benefits of the funding provided by the DIP Lenders, which funding has been provided by those Lenders notwithstanding the Debtors' defaults under the DIP Credit Agreement, the Committee wants to preserve the right to sue those very same Lenders based on vaguely alluded to potential claims that the Committee believe may or may not exist. Such a result would be wholly inequitable, and no lender should be asked to fund under those circumstances.

For all of the reasons set forth above, the Debtors' motion for final approval of Amendment No. 5 to the DIP Credit Agreement should be granted, and the relief sought by the Committee in its Objection should be denied.

RESPECTFULLY SUBMITTED this 23rd day of September, 1999.

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